

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-01_____

EXHIBIT NO. ____ (JEE-1)

WITNESS: JON E. ELIASSEN, AVISTA CORP.

Exhibit No.____(JEE-1)

Docket No. UE-_____

(BW)(NY-FITCH/AVISTA) Fitch Affirms Avista Corp.'s Ratings
Business Editors

NEW YORK--(BUSINESS WIRE)--Sept. 28, 2001--Fitch has affirmed the ratings of Avista Corp.'s (AVA) debt securities (see listing below) following the Washington Utilities and Transportation Commission (WUTC) order allowing the company to recover \$125 million of deferred power costs, subject to refund, over a 15-month period. The Rating Outlook remains Negative.

The rate order, which equates to about \$59 million annually, together with cost reduction measures undertaken by management and available credit lines, should provide ample liquidity over the near-to-intermediate term. However, the rate order allowed only about 65% of AVA's deferred fuel balance as of Sept. 30, 2001 and makes no provision for recovery of the remaining balance. Of particular concern is the WUTC decision to end the company's deferral mechanism as of Dec. 31, 2001.

The company is also required to file a general rate case by Dec. 1, 2001 that will review the prudence of the deferred power costs. The outcome of the rate order is likely to have a significant impact on AVA's credit quality and ratings.

The WUTC order was issued in response to the company's July 2001 filing, which requested an \$87 million (37%) temporary annual rate increase to recover deferred power costs over a 27-month period. AVA's power cost deferrals result from extraordinarily high regional wholesale energy prices caused by the California energy shortage, extremely poor hydro conditions in the Pacific-Northwest, and the absence of a power cost adjustment mechanism to pass such costs through to customers. AVA deferred roughly \$190 million of energy costs through Sept. 30, 2001.

The order authorizes a \$125 million reduction in the deferred balance over a 15-month period, which equates to a temporary electric rate surcharge of \$59 million (25%) per annum. Roughly \$53 million of the deferred balance will be reduced via a non-cash credit related to the monetization of AVA's power sale to Portland General Electric. Proceeds from the 1998 monetization, previously scheduled to be booked over an eight-year period, will be fully recognized October 1, 2001. The company is considering alternative financing measures, including a potential sale or partnership for its 280-MW Coyote Springs 2 combined-cycle combustion turbine project, which is scheduled for commercial operation in June 2002.

In Idaho, a power cost adjustment (PCA) mechanism has been adopted that enables the pass through of a portion of the company's power procurement costs to customers. In July 2001, AVA filed for a \$17.9 million (14.7%) PCA rate increase to be effective Sept. 15, 2001 through December 2003 and that its

existing 4.7% PCA increase remain in place through December 2003. The Idaho Public Utilities Commission (IPUC) Staff recommended that AVA's filing be accepted by the IPUC with only modest modifications. A final order is expected in early October 2001.

The ratings are affirmed as follows:

Avista Corp. --First mortgage bonds 'BBB'; --Senior unsecured debt 'BBB-'; --Preferred stock 'BB+'; --Trust preferred 'BB+'; --Commercial paper 'F2'.

--30--CT/ch*

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KEYWORD: WASHINGTON CALIFORNIA IDAHO

INDUSTRY KEYWORD: UTILITIES BOND/STOCK RATINGS

SOURCE: FITCH



Moody's Investors Service

Global Credit Research

Rating Action

8 OCT 2001

Rating Action: Avista Corp.

MOODY'S DOWNGRADES CREDIT RATINGS OF AVISTA CORPORATION (SR.SEC. TO Baa3)**Approximately \$1.3 Billion of Debt Securities Affected.**

New York, October 08, 2001 -- Moody's Investors Service downgraded the ratings of Avista Corporation (Sr. Secured to Baa3). The downgrade of Avista's ratings is in response to concerns about an expected longer period for financial recovery than had originally been anticipated, as well as lingering regulatory uncertainties in the state of Washington. The outlook for Avista's ratings is negative, reflecting the still considerable challenges that the company must overcome to restore earnings, cash flow, and liquidity to healthier levels.

Ratings downgraded include Avista Corporation's senior secured debt to Baa3 from Baa1; its senior unsecured debt and issuer ratings to Ba1 from Baa2; its preferred stock rating to Ba3 from Ba1; and its shelf registration ratings for prospective issuance of unsecured debt to (P)Ba1 from (P)Baa2.

Ratings also downgraded include the preferred capital securities of Avista Corp. Capital I and Avista Corp. Capital II to Ba2 from Baa3, as well as the shelf registration rating for prospective issuance of preferred capital securities or subordinated debt of Avista Corp. Capital III to (P)Ba2/(P)Ba2 from (P)Baa3/(P)Baa3, respectively.

Moody's has downgraded these ratings despite the Washington Utilities and Transportation Commission's (WUTC) recent approval of a 25% temporary electric rate surcharge for Avista, covering the period from October 1, 2001 to December 31, 2002. The surcharge is less than the 36.9% requested, is in effect for 15 months versus the 27 months requested, and is subject to refund, pending a prudence determination expected to be part of the general rate case that Avista is mandated to file by December 1, 2001. Also, of particular concern to Moody's is the fact that the existing energy cost deferral mechanism is being eliminated effective December 31, 2001. In taking this action, Moody's has factored in the expectation that Avista will receive a ruling relating to its request for a 14.7% electric surcharge in its substantially smaller Idaho jurisdiction within the next several days. Moody's notes that Idaho regulators have been demonstrating solid support for utilities in recent decisions rendered and that Idaho regulation has in place a tested deferral mechanism, which serves to provide a high degree of certainty around the eventual recovery of the deferred power costs.

The recent WUTC order signals some support of Avista's need to address the sizable build up of energy cost deferrals due to a confluence of circumstances, including the worst drought conditions in over 70 years, volatile pricing for power in the wholesale market, and other changing market conditions (e.g.; price caps imposed by the Federal Energy Regulatory Commission). However, the order also creates a longer period for financial recovery than would have been the case if the WUTC order approved Avista's request for interim rate relief entirely as filed earlier this year. Moody's remains concerned that Avista is still left with ongoing challenges, following the recent WUTC order. Therefore, the downgrading of Avista's credit ratings anticipates that the utility will still need to cope with ongoing, albeit less severe, cash flow pressures because rates will still not completely cover power supply costs and the existing energy cost deferral mechanism is being eliminated.

Against the backdrop of the recent WUTC order, Moody's will continue to assess Avista's ability to finance construction of the Coyote Springs II generation plant, its ability to withstand the expected delay in a planned common equity offering due to the current market environment, and whether the utility's other strategies to reduce costs and rationalize nonregulated investments can be implemented successfully. Although Avista was able to add to its liquidity in the face of challenging circumstances, Moody's considers success in regard to the aforementioned matters as integral to improving earnings, cash flow, and liquidity to more healthy levels. In addition, a favorable outcome of the general rate filing to be made by December 1, 2001 would help stabilize the current negative rating outlook. This would be especially so if the outcome implements a power cost adjustment mechanism to create more certainty surrounding recovery of Avista's power supply costs incurred to serve its customers in the Washington jurisdiction.

<http://www.moody's.../2001200000359299.asp?namedEntity=Rating+Actio> 10-08-2001

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Avista Corporation is an energy company with utility and other subsidiary operations throughout North America. Its headquarters are located in Spokane, Washington.

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Thoren, Diane

From: SandPUtil@StandardAndPoors.Com
Sent: Wednesday, October 10, 2001 5:08 AM
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Subject: Avista Corp.'s Ratings Lowered, Off CreditWatch

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Avista Corp.'s Ratings Lowered, Off CreditWatch Dimitri Nikas, New York (1) 212-438-7807

NEW YORK (Standard & Poor's) Oct. 10, 2001--Standard & Poor's today lowered its corporate credit rating on Avista Corp. to double-'B'-plus from triple-'B'-minus and removed the ratings from CreditWatch, where they were placed with negative implications on Aug. 2, 2001. The outlook is negative. (See list below for all rating actions.)

The downgrade reflects Avista's substantially weakened financial profile, which is not expected to recover to levels commensurate with those of investment-grade companies over the near term, considerable uncertainty surrounding the regulatory environment in Washington despite the recently approved 25% rate surcharge, and management's ongoing challenges to ensure adequate liquidity until a final regulatory order is approved.

The financial profile for Avista has weakened significantly over the past 12 months, mainly as a result of increasing power cost deferrals, which have been internally funded and will continue to be so. The deferrals accrued because Avista paid substantially more for electricity than what it collected in rates. Therefore, Avista's cash-generation ability has been compromised, leading to credit-protection measures that are inadequate for the rating category.

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10-10-2001

The recently approved 25% rate surcharge in Washington state is expected to provide some relief to Avista in the form of much needed liquidity. However, the rate surcharge is much less than that requested by the company and will expire in 15 months (Dec. 31, 2002), a much shorter period than the 27 months requested by Avista. As a result, Avista will be unable to recover all accumulated deferrals. As part of the recent Washington Utilities and Transportation Commission (WUTC) decision, Avista's ability to defer additional power costs in excess of rates will terminate on Dec. 31, 2001, creating further uncertainty as to the recovery of additional power cost deferrals. Avista plans to address the unrecovered deferred balances, the ability to defer additional power costs, and the ability to share power costs with ratepayers in the upcoming general rate case filing, which is to be submitted by Dec. 1, 2001. However, the WUTC may take up to 11 months to respond, thereby creating considerable uncertainty as to the final outcome. The company's precarious position is further emphasized by the fact that as part of the rate filing, the WUTC will examine the prudence of the deferred power costs and retain the authority to order a refund of the amounts recovered, if necessary.

At the same time, Avista management is pursuing various alternatives to ensure adequate liquidity until the WUTC responds to the company's general rate filing. These plans include alternative financing for the Coyote Springs 2 combined-cycle plant, which is expected to come on line in early summer 2002, a planned equity offering that the company may be challenged to complete due to adverse market conditions, reductions in operating costs and planned capital expenditures, and the disposition of certain noncore assets. Although these measures may provide the necessary relief during a transition period, clearly Avista needs a strong show of regulatory support in the form of a rate order that addresses the current cost under-recovery and provides a supportive regulatory framework that addresses the evolving and volatile nature of the electric utility industry. Without such a show of support, Standard & Poor's is concerned that Avista's financial profile may deteriorate further, leading to even weaker credit-protection measures.

OUTLOOK: NEGATIVE

The negative outlook reflects the challenges facing Avista in its effort to maintain adequate liquidity while ensuring the integrity of its electric utility operations and the regulatory uncertainty concerning the company's upcoming general rate filing. Without the necessary liquidity or a favorable rate order, the company's financial profile may deteriorate further, leading to even weaker credit-protection measures and lower ratings.

RATINGS LOWERED AND REMOVED FROM CREDITWATCH

	TO	FROM
Avista Corp.		
Corporate credit rating	BB+	BBB-
Senior secured debt	BBB-	BBB
Senior unsecured debt	BB+	BBB-
Preferred stock	BB-	BB

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Shelf debt preferred stock (prelim)	BB-	BB
Shelf senior unsecured (prelim)	BB+	BBB-
Avista Capital I		
Preferred stock*	BB-	BB
Avista Capital II		
Preferred stock*	BB-	BB
*Guaranteed by Avista Corp.		

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